CSR IN INDIA AFTER THE COMPANIES ACT 2013: AN EMPIRICAL STUDY ON ITS RELATIONSHIP WITH CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE

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Abstract

India is on the path of development and is witnessing growth when compared to its peers. However, the benefit of the increasing economic growth is being enjoyed only by a small portion of the country's population. As per the latest Human Development Index rankings (2017), India ranks 130th out of 189 countries, and it is moving up on the rankings at a plodding pace, thus, emphasizing on the developmental challenges India faces. The CSR agenda was included in the Companies Act 2013 keeping on table the developmental challenges India faces. The concept of CSR has taken a new meaning ever since its introduction as a mandatory requirement in the Companies Act 2013. However, since Section 135 is a soft mandate, the extent and the pace with which the companies are complying by the mandatory requirement needs to be checked. Thus, the focus of the paper is to: firstly, examine the extent of companies' compliance to the mandate; secondly, investigate the difference in the compliance by different groups of companies; thirdly explore the impact of corporate governance practices and corporate financial characteristics on CSR, and fourthly to analyze the impact of the CSR spending on the company's financial performance as that would determine their future course of action concerning their CSR spending. Data analysis has been done using Descriptive Analysis, One-Sample t-Test, Independent Sample t-Test, and Multiple Regression. The results indicate that the actual CSR spending is significantly less than the mandatory requirement. Polluting companies and companies with foreign ownership have been found to spend more than their counterparts. A significant impact of select financial characteristics and select corporate governance practices on the actual CSR spending of the companies has been concluded. Actual CSR spending is found to impact the financial performance of the companies significantly.

Keywords: CSR, Companies Act 2013, Corporate Governance, Financial Performance

JEL Classification: M14, G3, K2

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INTRODUCTION

The term 'Corporate Social Responsibility (CSR)' explains the responsibility of a corporation towards the society. An organization's operations create a tridimensional (economic, social, and environmental) impact on the society; therefore, certainly it should function under the overall discipline of the society. The discourse on CSR is primarily based on the premise that businesses use society's resources, and, therefore, they must contribute towards social welfare (Richa and Gautam, 2010; Sarkar and Sarkar, 2015). In return of extracting resources from the society, the business has to return what it owes in the forms like promotion of education, health care programmes, protection of national heritage, etc. (NIFTY, 2003). If a business wants to survive and grow in today's competitive market, it has to ransom a part of its profits in favour of groups other than the shareholders. Managers, now have begun to recognize that they owe responsibility not just to the owners but the society as well. This outlook acknowledges the concept of social responsibility.

There is no consensus on the definition of CSR (Richa and Gautam, 2010; Sarkar and Sarkar, 2015). Generally speaking, the idea of CSR in most of the definitions is a voluntary activity. CSR is a complex and dynamic concept with open rules of application (Matten and Moon, 2008). A review of the existing literature provides that CSR is about balancing the social, and environmental objectives along with the economic objective of maximizing shareholders' wealth. There is growing acceptance among the researchers and academicians about the differences in CSR issues across developing and emerging nations, and the developed nations. Social issues like poverty alleviation, promoting education, health-care provision, development of education sector, are more prevalent in developing countries than in developed countries, where environmental and sustainability issues such as climate change, business ethics, green marketing, and socially responsible investment are predominant (Sarkar and Sarkar, 2015). It is hard to refute that the market capitalization of large multinational companies like Apple or General Motors is higher than the individual Gross Domestic Product (GDP) of several nations. This reinforces the need for the companies to realize their power and use it to serve the accompanying duties (NIFTY, 2003). Sarkar and Sarkar (2015) explained the rationale for CSR by presenting diverse line of thoughts of different authors. Howard R. Bowen (1953) opined that private corporations should be assessed based on their contribution to the general welfare; Steiner (1971) stated that though businesses are primarily economic institutions, however, they do have a responsibility towards the society, and this responsibility should increase with the size of the business. Besley and Ghatak (2007) stated that CSR is like providing public goods by private and for-profit organizations who would be possibly more efficient in providing public goods than government firms. Supporting this, Deodhar (2015) added that it is a well-accepted fact in the society that the free market fails to deliver merit goods in the right quality and right quantity. Though the very reason of entry of government is to manage such market failures and provide optimal level of merit goods, however, the government's efforts are not sufficient. In this backdrop, a CSR activity may be seen by a firm both as a righteous action of a responsible corporate citizen and a value-creating opportunity for strategic brand building exercise. Over the years, the support for CSR has evolved, and has culminated into the 'Stakeholder Perspective' to CSR which recognizes the role of an organization to not only maximize shareholder's wealth, but also serve the interest of all other stakeholders.

In the backdrop of the growing need for organizations to behave in socially responsible way, and the lack of a universal definition of CSR, India, one of the fastest growing economies in the world, made an attempt to organically develop a model of CSR that suits its culture and economy, departing it from the global norms, making CSR spending mandatory for certain set of companies by enacting Section 135 of the Companies Act 2013. What makes Section 135 distinguishing is that not only it makes the reporting of CSR activities mandatory, but goes one step ahead by making CSR activities mandatory. In other countries, CSR spending has been kept as a voluntary subject, and only some countries such as Sweden, Norway, the Netherlands, Denmark, France, Australia and China, require mandatory disclosure of their CSR activities (Sarkar and Sarkar, 2015). Though Indonesia had mandated CSR spending for a certain set of companies back in 2007, however, through Companies Act 2013, India has taken a strong step to have mandated CSR spending for a much larger set of companies. Effective from 1 April 2014, Sec 135(1) requires every company with net worth of Rs.500 crore or more, or turnover of Rs. 1000 crore or more or a net profit of Rs.5 crore or more to spend in every financial year, at least 2 percent of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy to be drafted by the CSR committee within the purview of Schedule VII of the Act. Schedule VII activities mainly focus on social sector which is in stark contrast to the developed countries where the focus is on environment (Rajeev and Kalagnanam, 2013). The compliance to Section 135 is based on Comply or Explain approach, with no open penalty for non-compliance. If the Board of Directors' report does not include details as required by the law regarding the unspent on CSR and the reasons thereof, then penalty is levied.

The regulatory approaches to CSR across the countries take three different forms: voluntary reporting and voluntary spending, mandatory reporting and voluntary spending, and mandatory reporting and mandatory spending. The corporate failures since the 1990s, the growing concern towards the impact of business operations on the environment's sustainability, and the global financial and economic crisis of 2000s proliferated the need to have a stringent approach towards CSR Disclosure (Sarkar and Sarkar, 2015). However, much of the discourse on CSR across the globe is on reporting: whether CSR reporting should be voluntary or mandatory. Since, there is no universal definition of CSR, and differences exist in how developed countries and developing countries view CSR, with the enactment of Section 135 of the Companies Act 2013, the concept of Corporate Social Responsibility (CSR) has taken a new meaning. In India, in a short span of time, we have witnessed rapid changes in the CSR Reporting and CSR Spending Regime: From Voluntary Reporting and Voluntary Spending in 2008, to Mandatory Reporting and Voluntary Spending in 2012, to Mandatory Reporting and Mandatory Spending in 2013 (Sarkar and Sarkar, 2015). The mandate as has been enacted by the Indian Government is steady with the stakeholder theory and the legitimacy theory, and completely negates the idea of Friedman (1970) that "the business of business is to do business only" (Marques and Srinivasan, 2018). Thus, in this background, it necessitates the need to study the existing CSR environment in India, and whether the introduction of Section 135 of the Companies Act 2013 can act as a lesson for other developing countries to come up with a similar enactment in a hybrid form that suits their requirements.

REVIEW OF LITERATURE

The review of literature has been divided into four sections: the type of activities in which companies spend their CSR funds; the difference in the approach towards CSR by different sets of companies; factors impacting the CSR spending of a company; and the impact of CSR spending on the financial performance of a company.

CSR Spending pattern: CSR is not a new concept to India (Kumar, 2014). The mention of *Annachhatras* (the charity dining halls) in the work of Madgaonkar (1863) substantiates that India has had a long tradition of Charity (Deodhar, 2015). During the mid-nineteenth century, CSR was practiced in the nature of Charity based on tradition, religion, and family values. This approach changed in the pre-independence era when business houses like Tata, Birla, Bajaj, and Godrej set up educational and healthcare institutions, trusts, and charitable foundations for community development. Research suggests that even before the enactment of Companies act 2013, the pattern of

CSR expenditure of the companies hovered around these social activities only. Education, healthcare, environment, welfare of underprivileged sections of the society and rural development have been the areas majorly worked in by the companies. Sarkar and Sarkar (2015) unveiled in their study that during 2003-2011 the pattern of CSR spending of large Indian corporates broadly confirm to Schedule VII of Companies act 2013. FICCI (2016) reported Promotion of education, special education and vocational Skills as the key area of CSR intervention as indicated by 21% respondents, followed by Eradicating hunger, poverty and malnutrition, promoting health care, sanitation & safe drinking water as reported by 20% respondents, and Ensuring Environmental sustainability through Promotion of flora & fauna, animal welfare agroforestry (13%). The corporate involvement in the social and environmental sector is likely to increase in the post-act period (Rajeev and Kalagnanam, 2015). The results of FICCI (2016) survey support this. Desai, Pingali, and Tripathy (2015) invoked a possibility that in the post-enactment period companies which were spending more on CSR earlier may anchor their CSR spending to the 2% requirement, and this may lower the overall CSR expenditure figure, which would have been higher had CSR remained voluntary. CRISIL foundation's (2016) analysis indicated that for 2015 the listed companies cumulatively spent Rs. 6800 crores on CSR, which was around .65% less than the requirement of 2% spending. The overall CSR/Sustainability climate in India is presenting signs of positive reform (Jain and Winner, 2016).

Type of company group and CSR: Post-independence, CSR became obligatory (Gautam and Singh, 2010). Public Sector Undertakings (PSUs) were established to ensure equitable distribution of wealth in the country. Since the 1990s, when the country implemented the LPG reforms, the private sector's role in economic growth increased. Gradually, expectations developed that the private sector should also contribute towards the development of society at large (Jana Founadation, 2014). Government-owned companies are more visible in the public eye, and there is a higher expectation from them to behave responsibly (Ghazali, 2007). Thus, their CSR disclosure is more than others to legitimize their actions (Eng and Mak, 2003; Ghazali, 2007; Muttakin and Subramaniam, 2015). A comparative analysis of compliance to the CSR mandate by the public sector and private sector revealed that surprisingly, private sector performed better than the public sector not only in terms of the mandatory requirements but also in terms of the overall spending, though marginally in the latter. Since India has had age's old tradition of giving back to the society, it is likely that companies with Indian controlling shareholders spend more than their counterpart (Marques and Srinivasan, 2018). In India, while the spirit of charitable giving strongly exists in some companies, it did not translate into widespread good governance among Indian companies (Afsharipour and Rana, 2014). Companies with foreign ownership by those who are domiciled in nations with strict law compliance and investor protection laws results in a disciplinary behavior in the host country also (Beuselinck et al., 2017; Haniffa and Cooke, 2005). Foreign ownership has been found to positively impact CSR disclosure (Muttakin and Subramaniam, 2015; Sharma and Kumar, 2017). Sarkar and Sarkar (2015) examined the data for 500 Indian companies' from 2003-2011 for 'green washing', a practice where companies undertake CSR to compensate for the negative impact of their economic actions on the community. The year-wise results showed some evidence of 'green washing' in the initial years, however, over the years the difference in the CSR spending between polluting and non-polluting industries narrowed down. In Bangladesh, polluting industries were found to make more CSR disclosure compared to others (Rashid, 2018).

Factors impacting CSR: With respect to the existing literature on factors impacting CSR, two broad category of factors have been studied, namely select corporate governance practices (board size, percentage of independent directors on board, size of the CSR committee, percentage of independent directors on the board of CSR committee, and promoter ownership); and select financial characteristics (financial performance, and risk).

Greater number of members on board offers diverse knowledge base and results in a comprehensive exchange of experiences and innovative ideas (Esa and Ghazali, 2012). Positive association between board size and CSR disclosure has been reported in a number of studies (Said et al., 2009; Haji, 2013; Jizi et al., 2014; Khan et al, 2016). However, larger board may also delay the decision making due to lack of consensus and conflicts among the members. Strong strategic changes are associated with smaller board size (Golden and Zajac, 2001; Toth 2017). Independent Directors are more concerned about their reputation, and therefore pay attention to the interests of all stakeholders when taking board decisions (Jizi et al., 2014). Boards with higher percentage of independent directors on board shall abide by the requirement of the mandate (Chen and Jaggi, 2000). A positive association was reported between independent directors and CSR disclosure (Khan et al., 2016; Sharma and Kumar, 2017; Toth 2017). The formation of a separate CSR committee in a company is recommended as that may have a positive association with CSR (Sharma and Khanna, 2014); nevertheless, they have been rarely studied (Mallin and Michelon, 2011). When the size of the committee is smaller, each director puts in more effort to come up with strong and reliable strategic decisions as they cannot rely on other directors (Golden and Zajac, 2001). Wang and Sarkis (2017) distinguished between Rigorous CSR governance and symbolic CSR governance. A rigorously implemented CSR governance mechanism brings in the required structural changes in the business, compared to a symbolic CSR governance mechanism which is a no less than simply window dressing CSR. An arduous CSR governance preserves social legitimacy and contributes to superior CSR outcomes which in turn results in higher financial returns. Firms which are controlled by the promoters may take actions which favour shareholders' opportunism (Bebchuck and Hamdani, 2009). Sharma and Kumar (2017) concluded a positive and significant impact of promoters' shareholding on CSR disclosure, while Muttakin and Subramaniam (2015) explained no significant impact. Contributing thought-provokingly to the debate on the cost and benefit of CSR, the evidence in the study of Chintrakarn et al. (2016) revealed that firms with more effective corporate governance make significantly less investment in CSR, and thus appeared in favour of the agency cost/over-investment view. Effective corporate governance brings in the pressure on managers to focus on maximizing shareholders' wealth. Conflict resolution hypothesis which claims that better the corporate governance, higher will be the CSR was not supported by the study. Studies have also reported no association between corporate governance variables and CSR (Rashid, 2018; Wellalage et al, 2018).

Sarkar and Sarkar (2015) highlighted in their study that size matters in CSR engagement. The mean and median net worth and sales of companies reporting CSR were found to be significantly more than their counterparts. Larger firms are more observable and are pressurized more from the stakeholders to engage in a socially responsible way (Brammer et al, 2009). Large sized firms, on account of their higher visibility, are more exposed to reputation costs (Marques and Srinivasan, 2018). Though larger firms have more resources, however, large sized firms also possibly face higher bureaucratic and agency costs, and lesser control by the top management. Thus, the impact of firm size can be negative (Sharma and Rana, 2014). Poor financial performance can lead to conservative use of the resources for social responsibility (Cameron et al., 1987), and vice versa (Khan et al, 2016). Saleem et al (2015) concluded no significant impact of higher profitability on CSR. The management and the shareholders of companies with higher risk disclose more CSR information to legitimize their activities to the creditors. Higher the risk, more is the CSR information disclosed by the companies to give an assurance to the creditors that the company is responsible to the society and it shall not deny its claim (Naser et al, 2002). Studies have also reported no impact of leverage on CSR (Khan et al, 2016) and negative impact also (Muttakkin and Subramaniam, 2015). Older firms may have stronger ties with the communities they operate in and may have more cash to invest in CSR (Marques and Srinivasan, 2018). Also, there are greater chances of long-established firms to make higher social disclosures (Kansal et al, 2014). However, older firms may also face agency problems, higher complexities than others, and rigidity in adaptability which may have a negative impact on their financial performance (Sharma and Rana, 2012). On the basis of the review of literature, select market based (Tobin's Q, PE ratio, and Beta) and accounting based (Return on Equity, Earnings per Share, and Financial leverage) corporate financial characteristics have been taken for study. Age and size have been taken as control variables for the purpose of analysis.

Impact of CSR on firm's financial performance: The opponents to Section 135 argue that mandatory CSR is no less than an implicit tax making Indian investment scenario less competitive further by 2% (Deodhar, 2015). However, Sarkar and Sarkar (2015) pointed out that under the explicit tax, the companies get no guarantee that the money will be spent on CSR. However, under the so called 'implicit tax' under Sec 135, the companies have the control over the disbursement of their funds, and if properly directed will most likely add to their valuation in the long run. Though there were criticisms, however, stock prices didn't negatively react to the mandatory CSR spending which indicated that industry didn't view it as a coercive measure (Karnani, 2013). Existing literature lacks homogeneity on the relationship between corporate social performance and corporate financial performance (Fernandez, 2015). Positive association between CSR and firm valuation in the long run has been reported (Panicker, 2017; Kang et al, 2010). CSR may not reward the companies in the short run, however, in the long run, the higher reputation results in lower cost of capital, and ultimately higher valuation. Higher CSR spending by a company has a positive impact on its CSR reputation, which positively impacts the investor confidence in a company, and thus its market based financial performance (Kansal et al, 2014; Govindarajan and Amilan, 2013; Akpinar et al, 2008; Mittal et al, 2008) and accounting based financial performance (Pan et al, 2014; Govindarajan and Amilan, 2013; Rajput et al, 2012; Callan and Thomas, 2009). Institutional Investors recognize a company's social responsibility (Dyck et al, 2015) as, investment in CSR positively impacts the corporate reputation (Kansal et al, 2014). A reputed firm can further improve its relationship with bankers, investors, facilitate easier access to their capital and attract better workforce, and more customers. Managers should integrate CSR with their business strategy like other core business issues, rather than treating CSR as an optional activity (Kapoor and Sandhu, 2010). Fernandez (2015) suggested that the relation between corporate social performance and corporate financial performance represents a virtuous cycle i.e. what is profitable is social and vice versa. The ultimate objective of shareholder's wealth maximization, and the growing social and environmental concerns across the globe has warranted the need to resort to policies which facilitate the achievement of both of these goals. On the contrary, negative impact of corporate social performance on corporate financial performance (Fu et al, 2014) and neutral impact (Fiori et al, 2012; Iqbal et al, 2012; Anees, 2012; Mittal et al, 2008) has also been reported. Firms with better level of earnings management and with an increase in CSR program of the company contributed to a negative effect on the company's future financial performance.

OBJECTIVES OF THE STUDY

The compliance to Section 135 is based on Comply or Explain approach, with no open penalty for non-compliance i.e. if the company doesn't 'comply' by the mandate, the Board shall, in its report 'explain' the reasons for not spending the amount. Thus, Section 135 can be explained as a "soft mandate" (Rossow, 2015). However, if the boards fails to do so, the company and the officers are punishable. Less empirical research has been done to find out the determinants of CSR in India, and most are small sample based studies (Kansal et al, 2014). Studies on the relationship between CSR and financial performance of the companies have been done, and have reported mixed results (Mishra and Suar, 2010). As the Section 135 mandate is exclusive to India, made effective from the financial year 2014-15, not a lot of literature exists on this subject (Kapoor and Dhamija, 2017). This has served as the research gap and the study has been carried out with the following objectives:

1. To investigate the actual CSR spending of BSE 500 companies.

2. To study the deviation in company's CSR spending from the mandate of the Companies Act 2013.

3. To analyze the CSR spending for various groups of companies on the basis of the share holding pattern and the environmental sensitivity.

4. To explore the impact of the company's financial characteristics, and select corporate governance practices on their CSR spending.

5. To investigate the impact of company's CSR spending on their financial performance.

RESEARCH METHODOLOGY

The study is based on secondary data. The sample consists of the 500 companies listed on the S&P BSE 500 Index of the Bombay Stock Exchange as on 31 March 2017. The S&P BSE 500 index captures 95% of the of the total market capitalization of all the companies listed on the Bombay Stock Exchange. Since The Companies Act 2013 was made effective from 1st April 2014, the data has been collected for three years from 2014-15 to 2016-17. An in-depth analysis of the annual reports of the companies has been done to collect the data on CSR spending and the select corporate governance practices. Data on ownership and financial variables has been collected from Prowess, the Centre for Monitoring Indian Economy (CMIE) database. Out of 500 companies, financial companies have been excluded due to their different standards and structure of financial statements (Marques and Srinivasan (2018); Rashid (2018); Toth (2017)), and only those companies on whom the mandate under section 135 of the Companies Act 2013 was applicable were taken, and then the companies for which the CSR spending data was not available were excluded. The final sample was 291 companies for 2014-15, 333 companies for 2015-16, and 337 for 2016-17. Data for three years has been pooled and statistical tools have been applied on the pooled data of 961 observations.

Hypothesis of the Study: The following hypothesis have been framed to achieve the objectives of the study:

H_{01}: There is no significant difference between the actual CSR spending of the companies and the CSR spending as prescribed by the statutory requirement of the Companies act 2013.

H_{02}: There is no significant difference between the actual CSR spending of companies with Indian Controlling shareholder and foreign controlling shareholder.

H_{03}: There is no significant difference between the actual CSR spending of government owned companies and privately owned companies.

H_{04}: There is no significant difference between the actual CSR spending of polluting and non-polluting companies.

H_{05}: The actual CSR spending is not significantly impacted by the Accounting based corporate financial characteristics (Return on Equity, Earnings per Share, and Financial Leverage) of the companies.

H_{06}: *The actual CSR spending is not significantly impacted by the Market based corporate financial characteristics (Tobin's Q, Price-Earnings ratio, and Beta) of the companies.*

H_{07}: *The actual CSR spending is not significantly related to select corporate governance practices (board size, percentage of independent directors on board, size of the CSR committee, percentage of independent directors on the board of CSR committee, promoter ownership, and Indian vs. Foreign controlling shareholder).*

H_{08}: *The actual CSR spending is not significantly related to select corporate governance practices (board size, percentage of independent directors on board, size of the CSR committee, percentage of independent directors on the board of CSR committee, promoter ownership, and Indian vs. Foreign controlling shareholder) in the presence of control variables.*

H_{09}: *The market based financial performance of a company (Tobin's Q, and Price-Earnings ratio) is not significantly impacted by the actual CSR spending of the companies.*

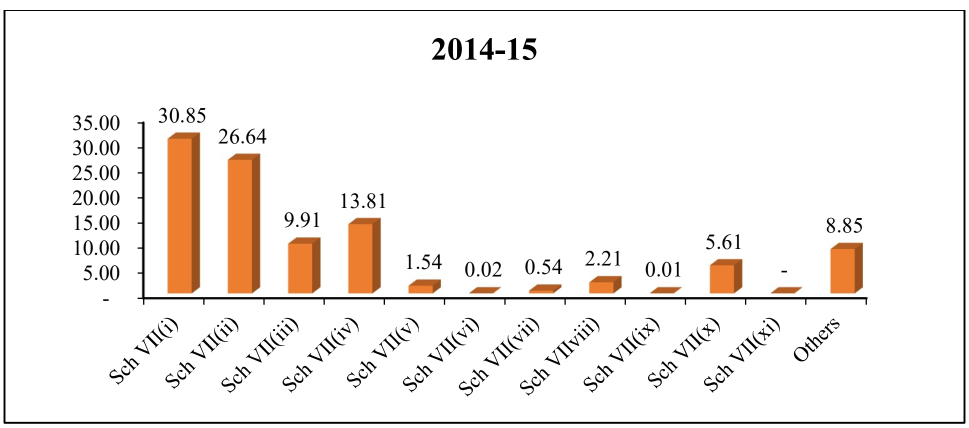
H_{10}: *The accounting based financial performance of a company (Return on Equity, and Earnings per Share) is not significantly impacted by the actual CSR spending of the companies.*

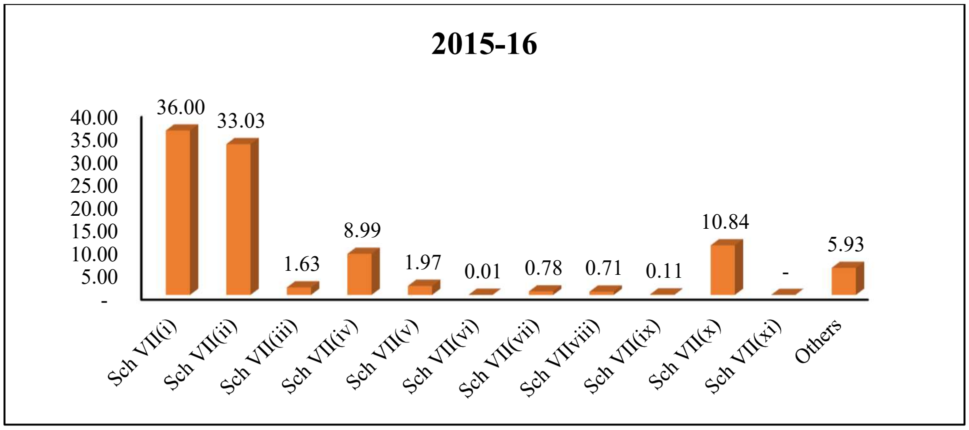
Tools used: IBM SPSS (Statistical Package for Social Sciences) Version 22.0 was used to conduct the statistical analysis. Descriptive statistics, One sample t-test, Independent sample t-test, and Regression Analysis were done to examine the relationships among the variables under study.

DATA ANALYSIS

Data Analysis has been done under four broad sections: Descriptive Analysis to explain the spending pattern of the companies in accordance to Schedule VII of the Companies Act 2013, and the compliance rate of the companies to the mandate; One Sample t-Test to analyze if significant difference exists between the actual CSR spending of the companies and the spending as required by the statutory requirement of the Companies act 2013; Independent Sample t-Test to analyze the CSR spending pattern of the different groups of companies; and Regression analysis to analyze the relationship between the CSR spending of the companies and selected variables. All the assumptions have been taken care of in each of the models. In order to run the independent sample t-test, the assumption of Homogeneity of variance was satisfied by checking the value of Levene's test for Equality of variance. In order to draw accurate references from the regression analysis, four key assumptions were checked for each model: normality, homoscedasticity, autocorrelation, and multicollinearity.

Descriptive analysis: Schedule VII of the Companies Act 2013 provides a list of activities classified into eleven broad categories wherein the companies can spend their CSR funds- 1) Hunger, Poverty, Malnutrition, Health, Sanitation; 2) Education, Livelihood Enhancement; 3) Gender Equality, Orphans, Old-aged, Backward groups; 4) Environmental Sustainability; 5) National Heritage, Art and Culture; 6) Armed Forces and their Family; 7) Promotion of Sports; 8) Contribution to CG Funds; 9) Funds to Technology Incubators; 10) Rural Area Development; and 11) Slum Area Development. Out of all the categories, it is only category 8 (Contribution to CG funds) wherein the contribution made can be claimed as deduction under the Income tax Act, 1961. Thus, it would be interesting to observe whether companies spend in category 8 so as to reduce their tax liability or they spend directly contribute towards CSR. In the year 2014-15, category 1, category 2, and category 4 have been the top three areas of CSR spending; In 2015-16, category 1, category 2, and category 10 have been the top three areas of CSR spending; and in 2016-17 category 2, category 1, and category 10 have received the maximum CSR spending as can be seen from the above charts. Every year, the activities in the top three categories have received 70 percent of the CSR funding. With respect to Category 8, the companies have contributed only a small fraction of the total contribution. The category wise spending for each of the three years under the study has been shown below:





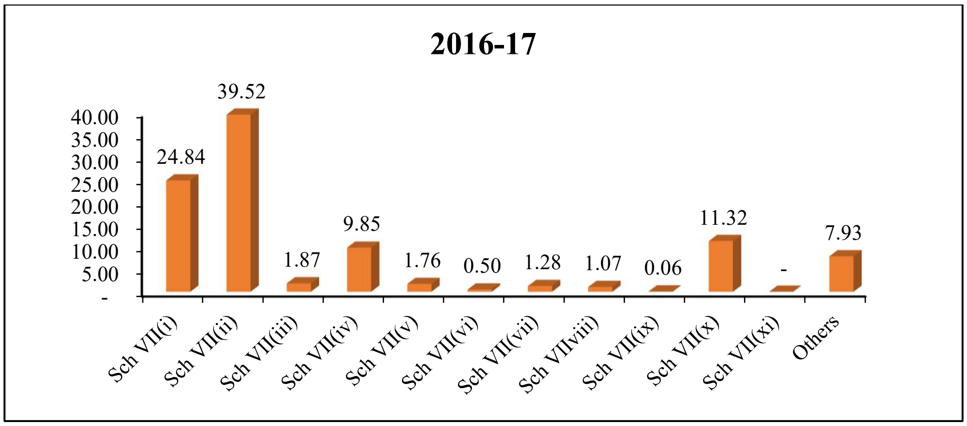


Fig. 1: Amount spent in each Category as a Percentage of Total Amount Spent (2014-15 to 2016-17)

An interesting finding is that in all the three years, taking the consolidated absolute amount into consideration, though the companies together have spent more than 80 percent of the prescribed amount in absolute terms, however, the compliance rate of the sample to the mandate of spending 2 percent of the average net profits of the last three years is extremely low.

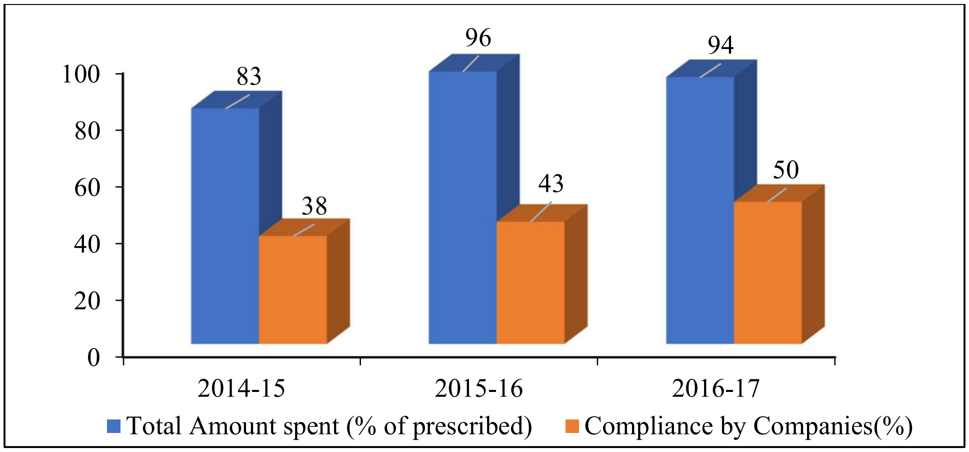


Fig. 2: Compliance to The 2% Mandate: The True Picture

Though the percentage of compliance is increasing every year, however, the pace is very slow.

One Sample t-Test: The data was tested to analyze if significant difference exists between the actual CSR spending of the companies and the spending as required by the statutory requirement of the Companies act 2013. The table below provides the result of the test:

Table 1: One Sample t-Test (Test Value=2)

Variable	Mean	t	Df	Bootstrap (Sig 2-tailed)
Actual CSR Spending (%)	1.825	-2.470	960	.014**

Source: SPSS Output

***p<.01;**p<.05;*p<.10

Results indicate that the actual CSR spending of companies is significantly different from the statutory requirement of the Companies act 2013 (t (960) = -2.470, p=.014<.05). The mean of actual CSR spending of the companies is 1.825% which is less than the 2% requirement. **Thus, we reject the null hypothesis (*H_{01}*).** Companies are taking advantage of the 'soft mandate', and thus their spending is significantly different from the 2% mandate.

Independent Sample t-Test: The analysis has been done for three sets of companies: companies with Indian controlling shareholder and foreign controlling shareholder, government owned companies and privately owned companies, and polluting companies and non-polluting companies to gauge the difference in the actual CSR spending (%) of these sets of companies.

Analysis of CSR Spending by Companies based on their Shareholding Pattern: Companies under analysis are: Set 1: companies with Indian controlling shareholder and foreign controlling shareholder; Set 2: government owned companies and privately owned companies. The tables below provide the result of the test:

Table 2: Group Statistics

Test Variable	Sets of Companies	Groups	N	Mean	Std. Error Mean
Actual CSR Spending (%)	Set 1	Companies with Foreign Controlling Shareholder	501	1.961198	.1269589
		Companies with Indian Controlling Shareholder	460	1.676967	.0518651
	Set 2	Government Owned Companies	89	2.085943	.1808030
		Privately Owned Companies	872	1.798528	.0757866

Source: SPSS Output

Table 3: Independent Samples Test on Actual CSR Spending (%) for Companies based on Shareholding Pattern

Test Variable	Sets of Companies	t	Mean Difference	Df	Bootstrap (Sig 2-tailed)
Actual CSR Spending (%)	Set 1	2.008	-.287	959	**.073***
	Set 2	-1.177	.284	959	.150

Source: SPSS Output

***p<.01;**p<.05;*p<.10

Based on the above tables, it can be concluded that:

Set 1: The actual CSR spending (%) of companies with Indian Controlling shareholders (M=1.68, SE=.052) is significantly different from that of companies with Foreign Controlling shareholders (M=1.96, SE=.127). The difference is significant: t (959) = 2.008, p< .10 as can be seen in Table 5.3. Companies with Foreign Controlling shareholders are spending more than companies with Indian Controlling shareholders. **Thus, we reject the null hypothesis H_{02}.**

Set 2: There is no significant difference in the actual CSR spending (%) of government owned companies (M=1.68, SE=.052) and privately owned companies (M=1.68, SE=.052) as can be seen from Table 5.3 as t (959) = -1.177, p>.10. **Thus, we accept the null hypothesis H_{03}.**

Analysis of CSR spending of Companies based on the Impact of their Business Operations on the Environment: On the basis of the impact of company's business operations on the environment, the companies have been divided into two groups: Polluting companies and Non-polluting companies. The tables below provide the result of the test conducted to check whether there exists any significant difference in the actual CSR spending of these companies:

Table 4: Group Statistics

Test Variable	Groups	N	Mean	Std. Deviation	Std. Error Mean
Actual CSR Spending (%)	Polluting Companies	431	2.056	2.878	.139
	Non-Polluting Companies	530	1.637	1.390	.060

Source: SPSS Output

Table 5: Independent Samples Test for Companies based on the Impact of their Business Operations on the Environment

Test Variable	t	Mean Difference	Df	Bootstrap (Sig 2-tailed)
Actual CSR Spending (%)	2.957	.4193	959	**.024****

Source: SPSS Output

***p<.01;**p<.05;*p<.10

Based on the above tables, it can be concluded that the actual CSR spending (%) polluting companies (M=2.056, SE=.139) is significantly different from that of the non-polluting companies (M=1.637, SE=.060). The difference is significant: $t (959) = 2.957$, $p< .05$ as can be seen in Table 5.5. Polluting companies are spending more than the non-polluting companies. **Thus, we reject the null hypothesis H_{04}.**

Regression Analysis: This analysis is divided into two sections: First, where Actual CSR Spending (%) is a dependent variable (Model 1 to Model 4); and Second, where Actual CSR Spending (%) is an independent variable (Model 5 to Model 8). The rationale behind this been to see firstly what impacts CSR spending, and then see that if a company does CSR spending, how does it impact its financial performance.

In the first section, while Model 1 and Model 2 analyze the impact of accounting based corporate financial characteristics and market based financial characteristics on actual CSR spending respectively, Model 3 and Model 4 analyze the impact of select corporate governance practices on actual CSR spending in the absence and presence of control variables respectively. In the second section, the impact of actual CSR spending on the financial performance is analyzed. Model 5 and Model 6 analyze the impact of actual CSR spending on the company's market based financial performance measured using Tobin's Q and Price Earnings (PE) ratio for the respective models, and Model 7 and Model 8 analyze the impact of actual CSR spending on the company's accounting based financial performance measured using Return on Equity (ROE) and Earnings per Share (EPS) for the respective models. Multiple regression has been run on the following equations formulated on the basis of the hypothesis.

Model 1: Impact of Corporate Financial Characteristics (Accounting Based) on Actual CSR Spending (%)

$Y_1 = \alpha + \beta_1$ (Return on Equity) + β_2 (Earning per Share) + β_3 (Financial Leverage) + β_4 (Age) + β_5 (Size) + εi -Eq. (1)

Where, Y_1 represents the dependent variable, Actual CSR Spending (%); β_1, β_2, and β_3 are the independent variables; and β_4, β_5 are the control variables.

Model 2: Impact of Corporate Financial Characteristics (Market Based) on Actual CSR Spending (%)

$Y_1 = \alpha + \beta_1$ (Tobin's Q) + β_2 (PE Ratio) + β_3 (Beta) + β_4 (Age) + β_5 (Size) + εi -Eq. (2)

Where, Y_1 represents the dependent variable, Actual CSR Spending (%); β_1, β_2, and β_3 are the independent variables; and β_4, β_5 are the control variables.

Model 3: Impact of Select Corporate Governance Practices on Actual CSR Spending (%)

$Y_1 = \alpha + \beta_1$ (Board Size) + β_2 (Independent Directors on Board (%)) + β_3 (Size of the CSR Committee) + β_4 (Independent directors on Board CSR Committee (%)) + β_5 (Promoter Ownership) + β_6 (Indian vs Foreign Controlling Shareholder) + εi -Eq. (3)

Where, Y_1 represents the dependent variable, Actual CSR Spending (%); β_1, β_2, β_3 β_4, β_5, β_6 are the independent variables.

Model 4: Impact of select Corporate Governance Practices on Actual CSR Spending (%) with Control Variables

$Y_1 = \alpha + \beta_1$ (Board Size) + β_2 (Independent Directors on Board (%)) + β_3 (Size of the CSR Committee) + β_4 (Independent directors on Board CSR Committee (%)) + β_5 (Promoter Ownership) + β_6 (Indian vs Foreign Controlling Shareholder) + β_7 (Age) + β_8 (Size) + + β_9 (Profitability) +εi -Eq. (4)

Where, Y_1 represents the dependent variable, Actual CSR Spending (%); β_1, β_2, β_3 β_4, β_5, β_6 are the independent variables; and β_7 β_8, β_9 are the control variables.

Table 6: Model Summary

Model	R	R Square	Adjusted R Square	DW Statistic	F	Sig.
Model 1	.128	.017	.010	**2.001**	4.482	**.000**
Model 2	.211	.045	.040	**1.996**	8.918	**.000**
Model 3	.128	.017	.010	**2.001**	2.621	**.016**
Model 4	.180	.032	.023	**2.003**	3.459	**.000**

Source: SPSS Output

Table 7: Result of Multiple Regression Analysis

Model 1			
Variables	**B**	**t-value**	**Bootstrap Sig.**
Return on Equity	-.007	-1.862	**.063***
Earnings per Share	.000	-.925	.355
Financial Leverage	.172	1.675	**.094***
Age	.858	3.246	.001***
Size	.115	.919	.358
Model 2			
Variables	**B**	**t-value**	**Bootstrap Sig.**
PE Ratio	.001	2.231	**.026****
Tobin's Q	1.750	3.170	**.002*****
Beta	.494	3.365	**.001*****
Age	.747	2.817	.005*
Size TA	.036	.289	.773
Model 3			
Variables	**B**	**t-value**	**Bootstrap Sig.**
Board size	-.051	-1.940	**.053***
Independent Directors on Board (%)	1.078	1.769	**.077***
Size of the CSR Committee	-.084	-1.281	.201
Independent directors on Board CSR Committee (%)	.296	.709	.478
Promoter Ownership	.009	1.899	**.058***
Indian vs Foreign Controlling Shareholder	-.461	-2.674	**.008*****
Model 4			
Variables	**B**	**t-value**	**Bootstrap Sig.**
Board size	-.019	-.662	.508
Independent Directors on Board (%)	1.325	2.175	**.030****
No. of Directors in CSR Committee	-.103	-1.552	.121

Independent directors on Board CSR Committee (%)	.259	.624	.533
Promoter Ownership	.007	1.556	.120
Indian Vs Foreign Controlling Shareholder	-.365	-2.090	**.037****
Age	.781	2.841	.005***
Size	.128	.914	.361
Profitability	-.008	-1.862	.063**

Source: SPSS Output

***p<.01;**p<.05;*p<.10

As can be seen from the above table, for Model 1, Return on Equity (B= -.007, p<.1) and Financial Leverage (B= .172, p<.1) significantly impact the actual CSR spending of the companies, negatively and positively respectively. **Thus, the null hypothesis H_{05} is rejected for return on equity and financial leverage.** For Model 2, Tobin's Q (B= 1.750, p<.01) and Beta (B= .494, p<.01) significantly and positively impact the actual CSR spending of the companies, and PE ratio (B= .001, p<.05) significantly and negatively impacts the actual CSR spending of the companies. **Thus, the null hypothesis H_{06} is rejected.** For Model 3, Independent Directors on Board (%) (B= 1.078, p<.1) and Promoter Ownership (B= .009, p<.1) significantly and positively impact the actual CSR spending of the companies, and Board Size (B= -.051, p<.1) and Indian vs Foreign Controlling Shareholder (B= -.461, p<.01) significantly and negatively impact the actual CSR spending of the companies. **Thus, the null hypothesis H_{07} is rejected for Board Size, Independent Directors on Board (%), Promoter Ownership, and Indian vs Foreign Controlling Shareholder.** For Model 4, Independent Directors on Board (%) (B= 1.325, p<.05) significantly and positively impact the actual CSR spending of the companies, and Indian vs Foreign Controlling Shareholder (B= -.365, p<.05) significantly and negatively impact the actual CSR spending of the companies. **Thus, the null hypothesis H_{08} is rejected for Percentage of Independent Directors, and Indian vs Foreign Controlling Shareholder.**

Model 5: Impact of Actual CSR Spending (%) on Market based Financial Performance (Tobin's Q)

$Y_2 = \alpha + \beta_1$ (Actual CSR Spending) + β_2 (Age) + β_3 (Size) + β_4 (Financial Leverage) $+\varepsilon i$ -Eq. (5)

Where, Y_2 represents the dependent variable, Tobin's Q; β_1 is the independent variable; and, β_3 β_2, β_4 are the control variables.

Model 6: Impact of Actual CSR Spending (%) on Market based Financial Performance (PE Ratio)

The following equation has been framed on the basis of the above hypothesis:

$Y_3 = \alpha + \beta_1$ (Actual CSR Spending) + β_2 (Age) + β_3 (Size) + β_4 (Financial Leverage) +εi -Eq. (6)

Where, Y_3 represents the dependent variable, PE Ratio; β_1 is the independent variable; and, β_3 β_2, β_4 are the control variables.

Model 7: Impact of Actual CSR Spending (%) on Accounting based Financial Performance (Return on Equity)

$Y_4 = \alpha + \beta_1$ (Actual CSR Spending) + β_2 (Age) + β_3 (Size) + β_4 (Financial Leverage) +εi -Eq. (7)

Where, Y_4 represents the dependent variable, Return on Equity; β_1 is the independent variable; and, β_3 β_2, β_4 are the control variables.

Model 8: Impact of Actual CSR Spending (%) on Accounting based Financial Performance (Earning per Share)

The following equation has been framed on the basis of the above hypothesis:

$Y_5 = \alpha + \beta_1$ (Actual CSR Spending) + β_2 (Age) + β_3 (Size) + β_4 (Financial Leverage) +εi -Eq. (8)

Where, Y_5 represents the dependent variable, Earnings per Share; β_1 is the independent variable; and, β_3 β_2, β_4 are the control variables.

Table 8: Model Summary

Model	R	R Square	Adjusted R Square	DW Statistic	F	Sig.
Model 5	.536	.287	.284	**1.954**	96.197	**.000**
Model 6	.129	.083	.079	**1.912**	20.029	**.000**
Model 7	.263	.069	.065	**1.945**	17.801	**.000**
Model 8	.253	.064	.060	**2.045**	15.079	**.000**

Source: SPSS Output

Table 9: Result of Multiple Regression Analysis

Model 5			
Variables	**B**	**t-value**	**Bootstrap Sig.**
Actual CSR Spending (%)	.005	3.128	**.002*****
Age	-.038	-2.860	.015**
Size	.038	6.003	.001***
Financial Leverage	.086	16.781	.001***
Model 6			
Variables	**B**	**t-value**	**Bootstrap Sig.**
Actual CSR Spending (%)	.013	2.025	**.043****
Age	.071	1.640	.101
Size	-.131	-6.676	.000***
Financial Leverage	-.093	-4.479	.000***
Model 7			
Variables	**B**	**t-value**	**Bootstrap Sig.**
Actual CSR Spending (%)	-.528	-1.993	**.005*****
Age	-9.487	-4.400	.002***
Size	-4.499	-4.438	.001***
Financial Leverage	3.360	4.037	.552
Model 8			
Variables	**B**	**t-value**	**Bootstrap Sig.**
Actual CSR Spending (%)	-.025	-2.283	**.023****
Age	-.218	-6.100	.000***
Size	.170	5.050	.000***
Financial Leverage	-.029	-.385	.701

Source: SPSS Output

***p<.01;**p<.05;*p<.10

As can be seen from the above table, for Model 5, Actual CSR Spending (%) (B= .005, p<.01) positively and significantly impacts the market based financial performance of the companies as measured by Tobin's Q. **Thus, the null hypothesis H_{09} is rejected for Tobin's Q.** For Model 6, Actual CSR Spending (%) (B= .013, p<.05) positively and significantly impacts the market based financial performance of the companies as measured by PE ratio. **Thus, the null hypothesis H_{09} is rejected.** For Model 7, Actual CSR Spending (%) (B= -.528, p<.01) negatively and significantly impacts the accounting based financial performance of the companies as measured by Return on Equity. **Thus, the null hypothesis H_{10} is rejected for Return on Equity.** For Model 8, Actual CSR Spending (%) (B= -.025, p<.05) negatively and significantly impacts the accounting based financial performance of the companies as measured by Earnings per Share. **Thus, the null hypothesis H_{10} is rejected.**

It is important to note that in the overall analysis, we have reported a low level of R square value. The reason behind this can be supported by the fact that the focus of the study has been to understand the impact of select corporate financial characteristics and select Corporate Governance practices on CSR spending, and explore whether the relationship is positive or negative, not intended to find out the determinants of CSR wherein the value of R square would have played a major role. This also represents a future scope of research.

FINDINGS AND CONCLUSION

The findings and conclusions have been explained in four sections as framed for the analysis.

CSR Spending Pattern: The findings of Descriptive analysis reveal that the sample companies have spent 43000 million, 64000 million, and 63000 million on CSR in the years 2014-15, 2015-16, and 2016-17 respectively. Every year, the activities in the top three categories have received 70 percent of the CSR funding. The majority of the CSR spending in India goes to two sectors: Education and Health. Out of all the eleven categories, only Category 8: Contribution to CG Funds is subject to Income Tax deductions. It is encouraging to observe that a very small portion of the total CSR expenditure has gone to Category 8. The reason behind this can be explained by the fact the government already has a number of plans and policies in place towards public welfare, so the companies want to directly contribute towards CSR. Moreover, only when they directly contribute, their CSR efforts will be visible in the public eye, and they will be able to reap the benefits of increased goodwill, reputation, and the resulting benefits in the market. The companies could have spent in Category 8, and availed the deduction benefit. Nevertheless, CSR makes business sense, and companies want their CSR efforts to be seen by the public, instead of simply contributing to a government fund, and let the government invest in the social sector. An interesting finding is that in all the three years, taking the consolidated absolute amount into consideration, though the companies together have spent more than 80 percent of the prescribed amount in absolute terms, however, the compliance rate of the sample companies to the mandate of spending 2 percent of the average net profits of the last three years is extremely low. In 2014-15, only 38 percent of the companies have spent 2 percent or more, however, 83 percent of the prescribed amount has been spent on CSR. Similarly in 2015-16, 96 percent of the prescribed amount on CSR has been spent, however, the compliance rate is only 43 percent. In 2016-17, 94 percent of the prescribed amount has been spent, however, the compliance rate is 50 percent. This clearly shows that the companies are taking longer than expected to implement Section 135 in full. The companies are taking advantage of the 'soft mandate', and are escaping from the mandate simply by specifying the reasons for not spending the amount, and avoiding penalties. The companies who are spending 2 percent or more on CSR are spending to an extent that more than 80 percent of the prescribed amount in absolute terms is being spent on CSR, while many others are spending much less than the required amount. The conclusion drawn from the descriptive analysis can be strongly supported by the findings of the one-sample test. Results indicated that the actual CSR spending of companies is significantly different from the statutory requirement of the Companies act 2013.

The findings of One Sample t-Test indicate that that the actual CSR spending of companies is significantly different from the statutory requirement of the Companies act 2013. Thus, the conclusion drawn from the descriptive analysis can be strongly supported by the findings of the one-sample test. Companies are simply taking the advantage of the 'soft mandate' and are absconding from the mandate simply by stating the reasons for not spending the amount and escaping penalties.

Type of company group and CSR: In line with the Beuselinck et al (2017), Haniffa and Cooke (2005), Muttakin and Subramaniam (2015), Sharma and Kumar (2017), Sarkar and Sarkar (2015) Rashid (2018) the findings of Independent Sample t-Test reveal that the actual CSR spending of companies with foreign controlling shareholder and polluting companies is significantly more than that of their counterparts. Moreover, only the polluting companies have complied by the mandate of spending 2% on CSR. Companies with foreign controlling shareholders are more visible from the eyes of the government than their counterparts. Thus, they try to perform actions which least attract government intervention. Since they operate in a different country they have to be more vigilant as their activities are more carefully looked upon and thus they need to behave responsible towards the society they are operating in. Though there is no mandate requiring polluting companies to spend more than their counterparts, however, they spend more to 'green wash' the negative impact of their business operations on the environment. Moreover, the active role of the Civil Society Organizations and the Non-governmental Organizations pressurizes these companies to simply not exploit the societies and return what is due from them. If businesses don't not respond positively to the needs of society, it is at the risk of attracting government intervention.

Impact of corporate financial characterisctics on CSR spending: The findings of Model 1and Model 2 reveal that financial leverage, Tobin's Q, PE ratio and Beta positively and significantly influenced the CSR spending of the companies, whereas ROE negatively and significantly influenced the CSR spending of the companies, thus these determine a company's CSR spending. Higher Tobin's Q and PE ratio imply greater confidence of the investors about the future earnings of the company. Institutional Investors recognize a company's social responsibility as investment in CSR positively impacts the corporate reputation. Thus they encourage CSR spending by companies (Dyck et al, 2015). A reputed firm can further improve its relationship with bankers, investors, facilitate easier access to their capital and attract better workforce, and more customers. Thus, firms with higher Tobin's Q and PE ratio invest more in CSR to attract institutional investors. Positive impact of Financial Leverage and Beta reveal that higher the risk of the company, accounting based or market based, higher will be the CSR spending of the companies to give an assurance to the creditors and legitimize their activities signaling that the company is responsible to the society and it shall not deny its claim (Naser et al, 2002). Negative relationship of Return on Equity with CSR spending of the company reveals that lower the Return on Equity, higher will be the CSR spending of the companies. Companies with lower ROE shall spend more on CSR to garner the positive impact of CSR on the firm's market value and thus its long run profitability. Long run profitability improves on account of an improved relationship of a reputed company with customers, employees, bankers, investors, and the society in general. Companies thus understand that CSR makes business sense.

Impact of corporate governance practices on CSR spending: The results of Model 3 and Model 4 reveal that without considering any control variables, positive and significant relationship exists between Percentage of Independent Directors, and Promoter Ownership of the company and the actual CSR spending of the companies, whereas a significant and negative relationship exists between board size and Indian versus foreign controlling shareholder and CSR spending of the companies. In the presence of control variable only Percentage of Independent Directors, and Indian versus foreign controlling shareholder influence the CSR spending of the companies. Independent Directors are more concerned about their reputation; therefore, pay attention to the interests of all stakeholders when making board decisions and abide by the requirement of the mandate. Board with a higher percentage of independent directors on board have more robust debates and come up with constructive CSR policies. These results are in line with Khan et al. (2016), Sharma and Kumar, (2017), and Toth (2017). Recognizing the positive long term impact of the CSR on the firm's value, companies with promoter ownership spend more on CSR (Sharma and Kumar, 2017). A negative association between the Board Size and CSR spending of the company arises due to delay in decision making due to lack of consensus and conflicts among the members (Golden and Zajac, 2001; Toth 2017). Conflicts may arise between the independent directors and the executive directors on CSR spending, which when unresolved delay the decision making, and thus reduce the CSR spending of the company. A comparative analysis Model 3 and Model 4 reveals that no matter corporate governance reforms are important, however, the basic characteristics like Age, Size, and Profitability of companies do play an important role while taking the major decisions in relation to the expenditures to me made for public welfare. There are greater chances of long-established firms to make higher social disclosures. Larger firms are more observable and are pressurized more from the stakeholders to engage in a socially responsible way With respect to profitability, the relationship between CSR spending and the profitability has been negative, which has been explained in the financial characteristics based models.

Impact of CSR spending on financial performance: The results of Model 5, Model 6, Model 7 and Model 8 reveal that the actual CSR spending of the companies positively and significantly impacts both the market based financial performance of the company, and negatively and significantly impacts both the accounting based financial performance of the companies. Higher CSR spending by a company has a positive impact on its reputation, which positively impacts the investor confidence in a company, and thus its market based financial performance (Kansal et al, 2014; Govindarajan and Amilan, 2013; Akpinar et al, 2008; Mittal et al, 2008). A reputed firm can further improve its relationship with bankers, investors, facilitate easier access to their capital and attract better workforce, and more customers, and thus have more profitability in the long run. In line with Fu et al (2014), negative association between the actual CSR spending and the accounting based financial measures has been reported. It can be explained on account of the direct impact of

Section 135 on the profits left for the shareholders. However, CSR is here to stay, and though it is negatively impacting the profitability of the company in the short run, however, it positively impacts the market based measures, as can be seen in Model 5 and 6. Market welcomes the CSR spending by the companies, and in order to have a strong market standing companies have to spend on CSR. It is expected that though the CSR spending is having a negative impact on the short run profitability of the company, however, these efforts will translate into increased firm value (Panicker, 2017; Kang et al, 2010), which will ultimately impact its long run profitability.

IMPLICATIONS AND RECOMMENDATIONS

The study holds implications for the Indian Government, the Government of the Developing Countries, the Companies, the Investors, and the Academic Institutions.

The Indian Government: The government of India introduced the 2 percent CSR mandate with a liberal approach keeping its implementation in the form of a soft mandate. However, the data collected in the study reveals though the companies together have spent more than 80 percent of the prescribed amount, nevertheless, the compliance rate of the sample to the mandate of spending 2 percent of the average net profits of the last three years is extremely low. Thus, it appears that companies are taking longer than expected to implement it.

One of the reasons for the low rate of compliance is the 'Comply or Explain' approach of the mandate which requires companies to simply explain the reasons for not spending the 2% funds without any penalty. Even after three years post the enactment of the act, giving an explanation for not spending the amount, apparently, looks like an easy escape mechanism. Thus, a strict approach towards the mandate is required to ensure better companies. It is recommended that government should shift its approach from the 'Comply or Explain' to a stringent 'Comply or Else' approach wherein non-compliance calls for levying penalties. The 'else' here brings with itself penalties, going beyond mere explanations. Since a liberal approach couldn't bring the desired results, levying heavy financial penalties as a percentage of the CSR funding requirement is likely to increase the compliance as companies would prefer to spend such amounts on CSR instead of paying that as a fine.

1. With respect to the activities for CSR spending as specified in Schedule VII of the Act, activities such as Disaster Relief, Contribution to State Government Funds to name a few, have already been

included by many companies in their CSR reports. However, these are not specified in Schedule VII. There is ambiguity in the way categories have been defined.

It is recommended that the government should issue an exhaustive list specifying clearly 'what comprises CSR' and 'what does not comprise CSR' as per the rules on Schedule VII. A CSR index can be prepared on the basis of the exhaustive list and companies scoring high on the index can be awarded. A 'Comply or Else approach can result in compliance to the mandate in 'letter' however, if government wants majority of the companies to follow the mandate both in 'the letter and the spirit' then the government should reward and recognize the top performers not just for the compliance, but for the projects they take up and the impact their projects create in the society. This would give a social recognition to those companies, and increase their goodwill in the market.

2. An **autonomous body** should be formed to check whether the companies are implementing the projects as have been reported by the companies in their CSR reports or it is merely on paper.

Since, the business operations of the polluting companies have a more adversative bearing on the environment and the community than the non-polluting companies, there should be **proportionate difference in the mandatory CSR contribution requirement** for the two groups of companies. The polluting companies should contribute more towards CSR. The higher spending requirement for them can be attributed specifically towards mitigating the negative direct impact arising out of their operations on the environment, for example investing in the adoption of latest technology that minimizes pollution specific to that industry.

The Governments of the Developing Countries: The companies in the sample have spent a massive 43000 million, 64000 million, and 63000 million on CSR in the years 2014-15, 2015-16, and 2016-17 respectively. Developing countries such as those in Latin America, and South Asia struggling to achieve a balanced and sustainable growth can also implement a hybrid structure on similar lines depending on their internal state of affairs. Given the corruption that exists in most of the developing countries including India, private provisioning of the public goods can be a good idea as the companies due to their cost-effective way of working may actually provide public goods at a cost lower than what the government provides it at.

The Companies: The mandate on CSR is here to stay, and in the coming years it may attract stringent regulations from the government. Though there is a negative effect of CSR spending on the accounting based profitability of the company, however, existing literature supports positive impact of CSR on the market performance.

It is recommended to the companies to strategically use their CSR contribution to create brand differentiation in the market. The projects undertaken should be showcased and advertised through the media so that it creates goodwill and reputation in the market, which shall ultimately increase their customer base, investor base, and give them better access to capital, and thus transform into increased profitability of the company in the long run. A **detailed report of the projects taken** by the companies and the corresponding impact of those projects should be stated in the CSR report so that a prudent investor can make a socially responsible investment decision.

The Investors: The investors should **invest in socially responsible companies** as only these companies have a scope for perpetual growth. Thus, they should carefully analyze the CSR reports of the companies to understand its true intentions.

The Academic Institutions: In order to strategically pursue CSR whether directly by the companies, or indirectly by the Non-Governmental Organizations, more professionals in the social sector domain would be required to help the companies in identifying the right CSR projects. Till now, the social sector has not been an attractive job sector for the youth as it doesn't offer handsome salaries. However, now that the corporate sector needs CSR experts, there would be an increased demand for these professionals, and the companies and the NGOs would be willing to pay them well also. Presently, fewer academic institutions offer courses in the social sector domain, which are otherwise also not popular among the youth of the country. Thus, academic institutions should come up with more of such courses- short term or full-time, and more awareness should be done about the need of such professionals in the social sector which would encourage the youth of the country to take up career in this domain.

India is the fastest growing large economy in the world (The Economist 2018), grappled with developmental challenges such as hunger, poverty, malnutrition, lack of adequate educational facilities, access to education, income inequality, excessive pollution, and population growth. Section 135 was criticized on the ground that the government is trying to shirk its responsibility to the corporate, however, as highlighted in Sarkar and Sarkar (2015), the social expenditure of the central and state government has not declined. The latest Economic Survey data 2017-18 indicates that the social expenditure of the government as a percentage of its total expenditure has increased from 23.4 percent in 2014-15 to 24.2 percent in 2016-17. Moreover, since the western concept of voluntary CSR had not been successful for India, there seems to be no reason why the state shouldn't intervene (Zile, 2013). The 2% spending requirement will bring India's CSR spending at par with that of United States (US). India needs more money for development than does US. It is the home to the largest proportion of poverty in the world. It is an absolute necessity for the country to sufficiently help its poor. If it is not being able to achieve this through the public welfare programs then the burden will fall on the companies. If India's soft mandate positively harnesses the power of corporate funded investment in the public welfare domain, it will be the beginning of a new wave in the domain of corporate social responsibility with India having taken the first step towards it. CSR in India is in a budding stage, and a lot of refinement will be necessary before we hit the equilibrium. There is more potential to the mandatory CSR Regime as framed in India. It is still to be seen whether the desired outcomes reach the ground level. Unless the issues like institutional enforcement weaknesses, corruption, and lack of transparency are addressed the full potential of CSR efforts may remain unrealized. However due recognition should be given to the India's progress in attempting to develop a CSR model that suits its national characteristics. The concept of CSR as voluntary subject has been imported from the western countries. This is the first step by India to organically develop a model of CSR that suits its culture and economy. What is laudable is the spirit with which the country has made her corporates socially responsible and in that, led the world's most developed nations. The pattern observed in India can serves as an experience for countries with similar developmental agenda. Implementation of the recommended changes may prove to be game changer for India's development.

LIMITATIONS OF THE STUDY

Though the study has contributed to the scarcity of literature available on CSR Spending, its relationship with select corporate financial characteristics and corporate governance practices and its impact on financial performance of companies, several limitations are noted:

1. The study is for a short period of time. The data has been collected for three years only.
2. The CSR spending data has been collected from Annual Reports on the basis of content analysis. Though the data was cross-checked, nevertheless, it is subject to human error.

3. Due to paucity of time and resources, not all variables which impact a company's CSR spending decision and measure financial performance of a company have been used for the study.

FUTURE SCOPE OF RESEARCH

A questionnaire based primary study can be done to identify the problems in implementation of the CSR mandate as to whether it is because of the soft mandate or there is lack of expertise on CSR or there are other reasons. Existing literature suggests that there are many other factors which have an impact on the CSR spending of the companies. A study identifying other factors which impact the CSR spending of the companies can be done. Further, a country-wise and/or an industry-wise comparative analysis of CSR spending of the companies can be done to analyze the impact of the mandatory requirement on the spending in the social sector.

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